



Office of the City Auditor

Date: April 25, 2003

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: 3rd Quarter Report on the City Auditor's Business License Tax Function

Effective for the fiscal year ending June 30, 2002, our office severed our report on our accomplishments in Business License revenue identification from the report dealing with the conditions observed and outstanding audit findings related to Finance – Customer Service. Instead we will substitute periodic reports to Council on planned and actual revenue recovery, and will deal with the Finance - Customer Service issues in our follow-up activities. Future audits in the area will be considered, but will not be an annual event. This is the report covering the City Auditor's Business License Tax Audit Program activity for the first nine months of the current fiscal year (through March 31, 2003).

The objectives of the City Auditor's Business License Tax Program are: 1) to identify and assess unlicensed businesses and 2) to evaluate the accuracy of reported gross receipts of licensed businesses and associated license fees. The Business License requirement is codified in the Berkeley Municipal Code Chapter 9.04. It was enacted solely for revenue purposes and, as such, is not meant to be a regulatory function.

**City Auditor's Office
Business License Tax Revenues Identified**

Period	Unlicensed Businesses	Underreporting Businesses	Delinquent License	Total Revenue Identified
July 1, 2002 – March 31, 2003	\$15,162	\$354,198	\$13,350	\$382,710
July 1, 2001 – June 30, 2002	59,701	15,020	7,653	82,374
July 1, 2000 – June 30, 2001	233,571	934	--	234,505
July 1, 1999 - June 30, 2000	214,361	--	1875	216,236
July 1, 1998 – June 30, 1999	295,323	7,283	36,591	339,197

As of March 31, 2003, the auditors identified revenue totaling \$382,710 and the City collected outstanding receivables totaling \$153,021. We reviewed 255 businesses and 102 were sent audit notification letters. We primarily focused on businesses that underreported their gross receipts. We audited 82 businesses for underreporting, including 60 dentists and 6 larger businesses. We also audited 20 businesses to determine why their Business License was delinquent. Fifty-four audit cases were closed, the majority of which were dentist cases. In addition, the City placed liens on three rental properties.

Each year, full time equivalent (FTE) employees assigned to conduct Business License tax audits are projected to generate \$125,000 each in one-time Business License tax revenue. For the first nine months of fiscal year 2003, 2.3 FTEs worked on Business License tax audits, and identified \$382,710 in revenue. This is \$167,085 above the 3rd quarter goal of \$215,625 ($\$125,000 \times 2.3 \text{ FTE} \times \frac{3}{4} \text{ FY}$), or 77% above the projected amount for each auditor. For the final quarter of the year, resources devoted to revenue identification were reduced, because of a temporary transfer of staff to another department, in order to implement the fiscal year 2003 reduction of one FTE in the Auditor's Office.

During the last nine years, the City Auditor's Business License Tax Program identified 941 businesses that owed tax for an increase in total Business License tax revenue of \$2,171,234. Since inception of the program in 1982 through March 31, 2003, the revenues identified from the City Auditor's Office Business License audits total \$4,401,933. Once a business obtains a license it usually continues to pay in succeeding years. Therefore, the identified revenue is not a one-time windfall, but becomes a part of future revenue streams. A more complete analysis of future revenue streams is contained in the accompanying report for the previous fiscal year.